



BUSINESS AND INDUSTRY (B&I) GUARANTEED LOAN PROGRAM

www.rurdev.usda.gov/ga/rbs.htm

For additional information,
Contact:
Business and Cooperative
Program
(706)546-2154
Fax: (706)546-2135

Application Process When Requesting Loan Guarantees of \$400,000 or less

The following information will assist a lender and borrower in submitting complete documentation to the Agency for a B&I Guaranteed loan request of \$400,000 or less using RD Form 4279-1A, "Application for Loan Guarantee," Business and Industry Short-one Doc.

Required Items

1. The lender and borrower must complete Form 4279-1A, "Application for Loan Guarantee," B&I Short-one Doc with attachments identified on page 8 of the form (items 31 through 35). The form can be download at the below site:

<http://www.rurdev.usda.gov/reqs/forms/4279-1A.pdf>

2. The applicant must complete RD Form 1940-20, "Request for Environmental Information," and provide any supporting attachments so the lender can complete their review to determine if certain environmental issues should be addressed.

RD Form 1940-20 can be downloaded from our website listed below:

<http://www.rurdev.usda.gov/regs/forms/1940-20.pdf>

Guidance for the completing RD Form 1940-20 can be downloaded from the below website: (Forms Manual Insert)

<http://www.rurdev.usda.gov/reqs/fmi/fm1940-20.pdf>

Item 3 of RD Form 1940-20 asks if certain land use or environmental resources will be affected by the approval of this project or located within or adjacent to project site. If an item is marked with a "Yes" in Item 3 of RD Form 1940-20, describe the nature of the effect on the resource affected by the project and who the primary beneficiaries are after the requested loan is closed. This should be listed as an attachment marked Exhibit II to RD Form 1040-20.

As stated on page 2, Section (2) (b) of RD Form 1940-20 forms manual insert, if one or more items 17 through 22 is checked "yes" or "unknown," the Agency will have to process the environmental review as outlined in "Floodplain Management and Wetland Protection Executive Orders." This could require a Phase II Report to be completed with public notification.

The Lender should cross reference the information provided by the borrower and the actual third party site assessment to insure that they are in agreement. While the primary purpose of environmental due diligence is to assess any impact on the value of the collateral, the presence of environmental contamination on a property may have other negative impacts to providing a loan. For example, environmental contamination may increase the likelihood of loan default or involve the bank in unnecessary litigation. Under a worst-case scenario, it may even expose the bank to direct liability for cleanup costs.

In the final analysis, an effective environmental risk analysis should be an integral component of Lenders loan underwriting for the B&I loan requested and is considered a prudent lending practice. The lender's analysis should include final conclusion of any environmental concerns and list any planned mitigation actions to limit any effects to the resource affected.

3. Intergovernmental consultation comments in accordance with RD Instruction 1940-J and 7 CFR, part 3015, subpart V and as instructed below:

The Georgia Office of Planning and Budget and Georgia State Director of USDA, Rural Development, have determined that projects that involve ONLY the purchase of equipment, debt refinancing, or the provision of technical assistance are NOT subject to review and therefore do NOT have to be submitted to the Clearinghouse. The applicant will use the information below to contact the Georgia Clearinghouse to complete this process, if needed.

Clearinghouse contact information:

Barbara Jackson, Administrator
Georgia State Clearinghouse
270 Washington Street, SW, 8th Floor
Atlanta, Georgia 30334-8500
Telephone Number: (404) 656-3855
Fax Number: (404) 656-7916
Web Site: <http://www.opb.state.ga.us/clearinghouse.htm>
E-mail: gach@mail.opb.state.ga.us

4. Lender's Loan Analysis

The lender's complete written analysis should include spreadsheets of the Balance Sheets and Income Statements for the 3 previous years (for existing businesses), pro forma Balance Sheet at startup, and 2 years projected yearend Balance Sheets and Income Statements, with appropriate ratios and comparisons with industrial standards (such as Dun & Bradstreet or Robert Morris Associates). All data must be shown in total dollars and also in common size form, obtained by expressing all Balance Sheet items as a percentage of assets and all income and expense items as a percentage of sales.

The lender's analysis must address the borrower's management ability as it relates to this business, repayment ability including a cash-flow analysis, history of debt repayment, necessity of any debt refinancing, and the credit reports of the borrower, its principals, and any parent, affiliate, or subsidiary.

The lenders collateral analysis will need to address the appraisal report including information on date report was prepared, credentials of the appraiser and reported market value. Also, address the results of the lender's administrative review of the appraisal report(s). Include general comments about marketable of the collateral, the degree to which the collateral is highly specialized or single purpose, the age and condition of the collateral. The collateral must have discounted value sufficient to protect the interest of the lender and the agency. The lender will discount the collateral consistent with sound loan-to-value and any environmental concerns.

The appraiser will be selected and engaged directly by the Bank or its agent. The appraiser's client is the bank, not the borrower. To maintain the integrity of the appraisal process, the borrower should not participate in the process except for providing information regarding the collateral to the appraiser. Additionally, the Agency will not accept an appraisal ordered by or prepared for the borrower. An appraisal prepared for the borrower also cannot be readdressed to a bank, as it remains a prohibited borrower-ordered appraisal. It is the Agency's position that any supporting information used by the appraiser must be provided to the lender and not addressed to the borrower. The Federal Reserve requires financial institutions to have an effective, independent real estate appraisal and evaluation program. The Federal Reserve further requires that appraisers performing reviews must possess the knowledge and expertise to assess compliance with the Federal Reserve's appraisal regulations and guidelines. Please note that the appraisal will be reviewed to insure that the bank obtained a review as required by banking policy and prudent financial practices.

5. A proposed Loan Agreement with an attached list of the proposed Loan Agreement provisions. The Loan Agreement must be executed by the lender and borrower before the Agency issues a Loan Note Guarantee. The following requirements must be addressed in the Loan Agreement:

- a) Prohibition against assuming liabilities or obligations of others.
- b) Restriction on dividend payment.
- c) Limitation on the purchase or sale of equipment and fixed assets.
- d) Limitation on compensation of officers and owners.
- e) Minimum working capital or current ratio requirement.
- f) Maximum debt-to-net worth ratio.
- g) Restrictions concerning consolidations, mergers, or other circumstances.
- h) Limitations on selling the business without the concurrence of the Lender.
- i) Repayment and amortization of the loan.

- j) List of collateral and lien priority for the loan including a list of persons and corporations guaranteeing the loan with a schedule for providing the Lender with personal and corporate financial statements. Financial statements on the corporate and personal guarantors must be updated at least annually.
- k) Type and frequency of financial statements to be required for the duration of the loan.

The final Loan Agreement between the lender and borrower will contain any additional requirements imposed by the Agency in its Conditional Commitment. A section within the Loan Agreement will be established at this time for the later insertion of any necessary measures by the borrower to avoid or reduce adverse environmental impacts from this proposal's construction or operation. Such measures, if necessary, will be determined by the Agency through the completion of the environmental review process.

6. Applicants current (not more than 90 days old) balance sheet .

The following items are required to be in the lender's file for review.

- 1. A personal credit report from an acceptable credit reporting company for a proprietor (owner), each partner, officer, director, key employee, and stockholder owning 20 percent or more interest in the applicant, except for those corporations listed on a major stock exchange. Credit reports are not required for elected and appointed officials when the applicant is a public body.
- 2. Appraisals, accompanied by a copy of the appropriate environmental site assessment, if available. Real Estate Appraisals must be completed by a Georgia Certified General Real Estate Appraiser. (Agency approval in the form of a Conditional Commitment may be issued subject to receipt of acceptable appraisals.)
- 3. Commercial credit reports obtained by the lender on the borrower and any parent, affiliate, and subsidiary firms.
- 4. Current personal and corporate financial statements of any guarantors. (Not more than 90 days old)
- 5. A business plan, which includes, at a minimum, a description of the business and project, management experience, products and services, proposed use of funds, availability of labor, raw materials and supplies, and the names of any corporate parent, affiliates, and subsidiaries with a description of the relationship. Any or all of these requirements may be omitted if the information is included in a feasibility study.
- 6. Independent feasibility study, if required.

Other forms and documents which will influence the review and approval of this proposed project and any additional information required by the Agency.